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Japan: Lessons from a hyperaging society

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The country's population, already the world's oldest, is aging quickly. Companies in Europe, North America, and Asia can learn from its experience.

Japan is the world's oldest country—25 percent of its people are aged 65 or over. By 2040, that ratio is estimated to rise to the historically unprecedented level of 36 percent. The population of Japan nearly tripled in the 20th century, peaking at 128 million in 2010. But with a falling birth rate, one of the world's longest life expectancies, and close to zero net immigration, the country is headed for not only a uniquely high ratio of seniors but also a sharp downturn in its total population (Exhibit 1). All that will put increasing strains on Japan's ability to manage its rising debt and social-security obligations and will create growing shortages of skills.

How the island nation responds to this unprecedented economic and social challenge will help guide government and corporate leaders in other hyperaging societies, including Germany, Italy, and Sweden (Exhibit 2).¹ These are important public-policy choices, to be sure. But Japan's companies too can play an important role, by creating environments where seniors continue to work and developing more products and services

that increase the quality of their lives and engagement with the world.

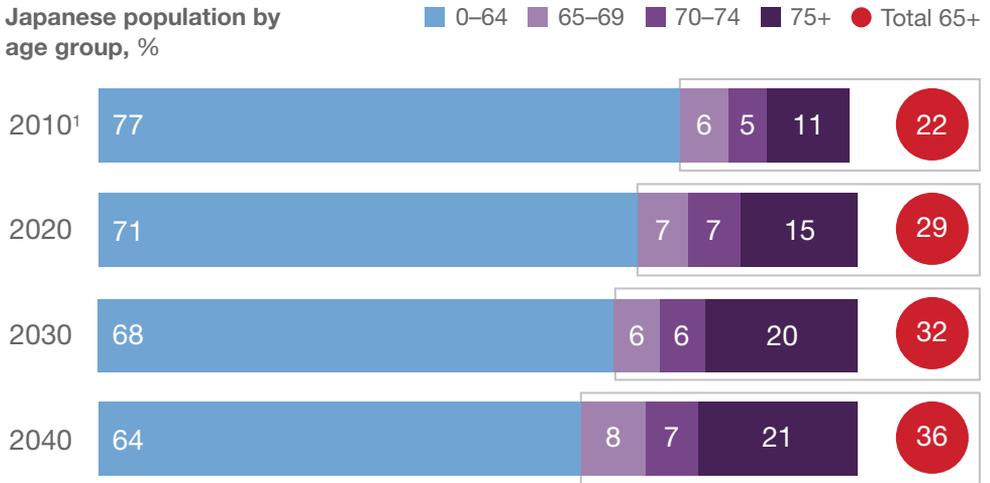
The labor-market gap

Most forecasts suggest that Japan's economy will continue to grow at roughly 1 percent a year, and the Organisation for Economic Co-operation and Development (OECD) estimates that this rate of growth will extend until 2040. Without dramatic change, primarily in service-sector productivity, this seems quite optimistic to us. If labor productivity (measured as GDP per capita) continues to increase at only 1.2 percent a year, that sort of economic expansion will require a working population of 62 million in 2040. We, on the other hand, estimate that if labor-market dynamics remain unchanged, in that year the working population will have shrunk to 49 million—21 percent lower than what's needed.

Japan could fill the gap by increasing the overall working population, accelerating the improvement in labor productivity, or a combination of the two. One path would be to raise female

Exhibit 1

By 2040, estimates suggest, more than a third of Japan’s population will be 65 or over.



¹Figures do not sum to 100%, because of rounding.

Source: e-Stat (Japan’s portal for government statistics); IHS Global Insight World Market Monitor

labor-force participation in the 25–44 age range to about 80 percent by 2040, from 71 percent now—narrowing the gap with the United States and Germany and bringing two million additional women into the workforce. As our colleagues at the McKinsey Global Institute point out, further increases in productivity across sectors would still be needed to meet Japan’s overall GDP-growth expectations.²

Helping seniors to go on working

Raising workforce participation by seniors would also help close the gap. In Japan, nearly 6.1 million people 65 and over work—about 20 percent of the total population in that age group. But in a survey by the Japanese Ministry of

Internal Affairs and Communications, 66 percent of the respondents over 60 expressed an interest in continuing to work beyond the age of 65. Two things can restrict employment for seniors. One is the general resistance of companies, which want to control payroll costs, lack systems to manage older employees, and see lower physical strength and motivation as problems (especially as workers become eligible for pensions). The second is the lack of a large market to outpace seniors; many people who want new careers retire because they can’t find new opportunities to keep going. To make it easier for seniors to continue in jobs beyond the age of 65, companies could adopt three approaches.

Encourage a range of work formats.

Food producer Kagome and department-store operator Takashimaya both let employees aged between 60 and 62 go on working either full time (at the same or reduced pay) or part time, depending on their performance. Both continue to evaluate such employees, so they can switch positions at a later

stage. Because these companies link work levels and pay for seniors to their performance, both now employ them without increasing payroll costs.

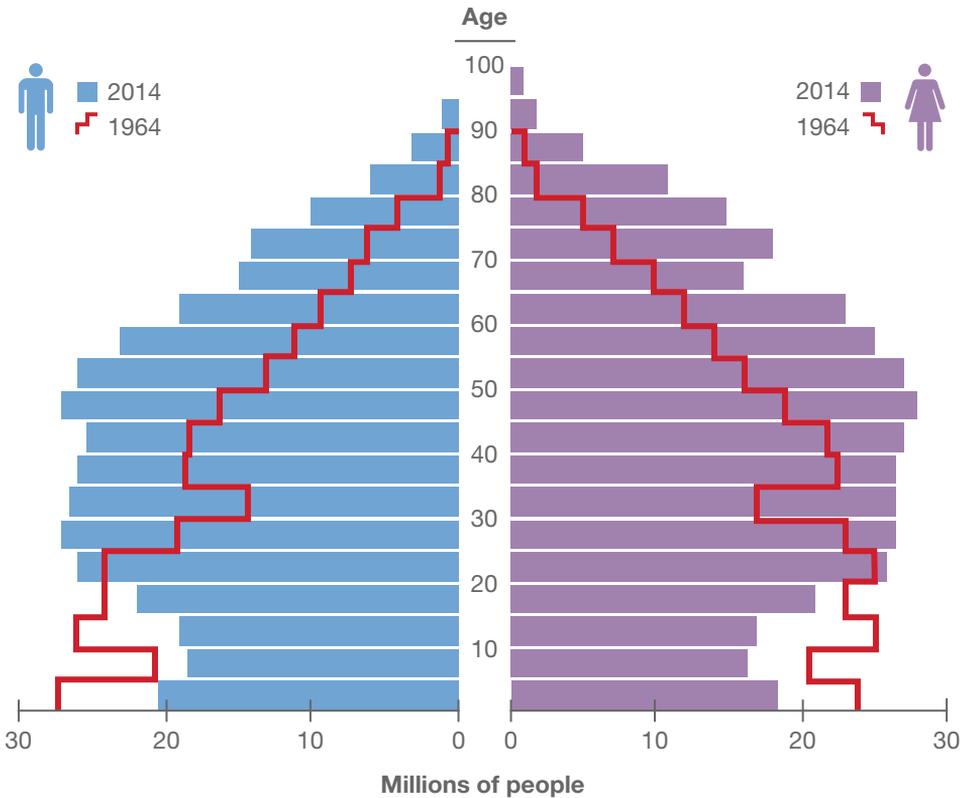
Address labor shortages with seniors.

Japan's Ministry of Health, Labour, and Welfare finds that the biggest labor shortage lies in the welfare sector, which

Exhibit 2

The aging of society will present a human-resource challenge for corporations.

Example: Population of Western Europe



Source: Eurostat; IHS Global Insight World Market Monitor; Observatory for Sociopolitical Developments in Europe; United Nations population forecasts; McKinsey analysis

currently has 170,000 openings (20 percent of the total labor shortfall). It says that 2.5 million caregivers will be needed by 2025, up from nearly 1.8 million employed now, as the number of seniors with nursing-care needs reaches 7.0 million by 2025, against more than 5.5 million today. Technology will help meet the demand but will not completely fill the gap.

The idea of able-bodied seniors providing nursing care for more dependent ones is appealing. Eleven percent of seniors who want to continue working said they would be willing to do this kind of job, according to a 2013 survey by the Japanese government. Most caregiving involves talking with residents and performing tasks such as cleaning and laundry, which don't require special skills or physical strength. If, say, 10 percent of currently unemployed seniors in the 65–74 age range worked several days a week as nursing-care staff, Japan could have 700,000 additional caregivers by 2025. One incentive might be to give them priority in admissions to nursing facilities once their turn comes.

Create knowledge and skill networks.

Companies could generate value by encouraging seniors to share their knowledge and experience of tackling problems (especially in management, marketing and sales, development, or production) with younger workers. Former Mitsui employees, for example, use their experience in a range of industries and roles to provide consulting services to more than 650 small and midsize enterprises,

handling projects involving sales worth hundreds of millions of yen. The Japanese staffing agency Mystar 60 specializes in placement services for people over 60, and its own employees are at least that age. These include technicians who show younger colleagues at the corporate parent, Mystar Engineering, how to develop new customers, among other things.

Developing products and services

Active seniors without major health problems have interests and needs different from those of seniors whose health is deteriorating or who want to lead lives as normal as possible with family support. Rather than customizing existing products and services, many companies can thrive in hyperaging societies by identifying new customer segments among seniors and developing novel products and services to help them.

Coping with frailty. One way companies can profit from hyperaging is to develop products that help seniors cope with infirmity. Tokutake's line of Ayumi shoes, for instance, are designed not only to combat knee and hip pain but also to help prevent users from slipping and falling. Unlike conventional shoe retailers, the company allows customers to order right and left shoes separately.

Playing in this market segment also demands a new approach to distribution. Companies that want to help seniors whose physical functions are deteriorating, for example, should consider delivering products and services to the customer's doorstep. Benry Corporation provides dozens

of services in seniors' homes, from cleaning air conditioners to weeding. 7-Eleven Japan offers meal-delivery services catering to seniors, and restaurant company Watami not only delivers handmade bento meals to the elderly but also operates nursing homes.

Remaining youthful. Serving the active elderly requires a different mind-set—a costly lesson learned by some companies. When Bridgestone launched its line of PHYZ golf clubs, it made the mistake of calling them golfing gear for seniors. A rival brand, acting on its research showing that seniors like being reminded of how youthful they are, positioned its offering on the promise that the ball would travel farther.

The US fitness chain Curves International, which entered Japan ten years ago to target the female market, seems to understand the “youthful” niche. With nearly 1,400 branches in the country and more than 580,000 members—70 percent of them over 50—the company offers basic services at low rates in convenient locations near residential areas. By emphasizing ease of access, and without overtly appealing to the elderly, it has generated demand among an age group that conventional fitness gyms find hard to attract.

Easing isolation. Companies can also assist older people by giving them ways to remain connected. Kozocom, for instance, developed Kozo SNS Village, a social-networking site for people 50 and over who want to share and talk about their hobbies. Kozocom has overcome seniors' inhibitions about

social networking by creating a service that helps them feel part of a community. Club Tourism offers trips with special themes, such as photography or history, specifically for seniors. And some medical-checkup and rehabilitation companies combine day-care services, culture classes, and fitness clubs to help older people build new relationships.



Getting more seniors into the workplace and serving their burgeoning ranks will help Japan—and other countries—bolster their GDP growth in coming decades. Seniors are not only the fastest-growing consumer segment in Japan but can also become a highly profitable one if approached appropriately. Companies in almost all industries should take note. ○

¹ Looking further ahead, the McKinsey Global Institute forecasts that by 2064, 15 countries in the G19 will have higher proportions of the elderly in their populations than Japan has today. For more, see the full report, *Global growth: Can productivity save the day in an aging world?*, January 2015, on mckinsey.com.

² For more, see the full McKinsey Global Institute report, *The future of Japan: Reigniting productivity and growth*, March 2015, on mckinsey.com.

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